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Mexico

Dairy and Products

Dairy Annual

2005

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Report Highlights:
Production and imports of most dairy products are expected to increase in 2006 as demand from processors and the retail and tourism sectors continue to rise. In addition, Mexico's parastatal LICONSA is expected to continue as a major importer of milk powder to meet the needs of its subsidized milk programs for low-income consumers. The high-tier tariff on imported milk powders is scheduled to drop to to 23.5 percent in 2006 under the terms of the NAFTA and will be eliminated completely on January 1, 2008.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Mexico [MX1]
[MX]

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Executive Summary

Dairy Situation and Outlook: Production and imports of most major dairy products continue to expand. Production gains are expected to come principally from Mexico's larger more modern dairy farms in central and northern states. Dairy producers continue to be concerned about the Mexican ban on imports of U.S. and Canadian dairy cattle due to BSE and how imports of dairy cattle could affect Mexico's BSE status. Producers have taken steps to expand the supply of herd replacements domestically through artificial insemination and better herd management practices. Imports of nearly all dairy products are expected to rise to meet the demand for processing inputs and as well as demand from Mexico's growing tourism and retail sectors.

Note: Currently, the Mexican peso is valued at US$10.92

SITUATION AND OUTLOOK 2006

Fluid Milk

Mexican fluid milk production continues to expand at a modest rate and is forecast to increase to 10.4 million metric tons (MMT) in CY 2006, up slightly from revised estimated CY 2005 production. Milk production in Mexico is highly segmented by type of operation. Dairy farms range from large modern operations, located mainly in northern Mexico, to medium, small, and backyard operations more commonly found in central and southern Mexico. Additionally, lower yielding dual-purpose breeds account for two-thirds of cows in milk. Producers continue to make modest productivity gains through improved genetics and herd management practices, mainly among larger more modern producers. Larger producers were initially hurt by the ban on imports of U.S. and Canadian replacement heifers and bulls after the detection of BSE in both countries. However, it appears that many have recovered by placing more emphasis on their breeding programs. Dairy goat milk production is also increasing as producers expand to meet the needs of the confectionary and cheese industries. The 2004 production estimate reflects official data.

Based on official data, imports of fluid milk were higher than anticipated in 2004, as Mexico's food processing industry bid fluid milk away from border areas, and retailers in border areas turned to U.S. suppliers. In addition, LICONSA, the government's parastatal corporation that supplies milk to low income consumers has tried for the past few years to expand its domestic fluid milk purchases, in an effort to lessen its dependence on milk powder imports, and is having some success among smaller producers in the north. Imports for 2005 and 2006 are forecast unchanged from 2004 levels as increases in domestic production are expected to curb demand for fluid milk in northern border areas.

Consumption and use of fluid milk continues to increase. Mexico's five principal dairy processors are engaged in fierce competition to supply quality dairy products to consumers. Competitive pricing and an ever-growing variety of dairy products are helping to spur demand. Health conscious consumers are also increasing their consumption of low fat and skim dairy products as the supply and variety of these products improves. Higher consumption of lower calorie dairy products is helping to boost overall consumption. The 2004 consumption estimate reflects official data. Despite the continued domestic fluid-milk purchasing program by the parastatal LICONSA, its purchases of NFDM milk on the international market are expected to continue as domestic production of fluid milk is still insufficient to satisfy domestic demand.

Cheese

Like milk production, cheese production continues to rise and is forecast at 138,000 MT for CY 2006. Demand from Mexico's robust tourist and restaurant sectors along with the continued expansion of Mexico's retail sector is helping to support growth in the production of cheese. For 2005, growth in the production variety cheeses is expected to result in higher than initially anticipated cheese production. Production of cheese for CY 2004 reflects official data.

Imports of cheese for CY 2006 are forecast up slightly for the same reasons that cheese production is increasing. Imports for CY 2004 reflect official data.

Butter (includes data for butter oil)

Mexican butter production for CY 2006 is forecast to increase to 92,000 MT on higher forecast milk production and increased usage from bakeries, confectioners, and other dairy food processors. Similarly, for CY 2005, based on production data through August, butter production is now estimated at 89,000 metric tons. Production of butter for CY 2004 reflects official data.

Butter imports for CY 2005 are revised upward from our previous estimate given strong demand from food processors. Butter imports for CY 2006 are forecast to remain unchanged from the previous year's revised estimate as the increase in domestic production is expected to dampen import demand. Belgium, New Zealand and the U.S. are expected to continue to be the primary suppliers of foreign butter. Imports for CY 2004 reflect official data.

Total butter imports are made up of two HS codes: 0405.10.01 for butter, and 0405.90.01 for butteroil.

Nonfat Dry Milk & Dry Whole Milk Powder

NOTE: Mexico does not separate official statistics on production and consumption of powdered milk (NFDM and WMP). Post estimates for milk powder production NFDM and WMP are based on interviews with the trade and LICONSA. The above production, import and consumption figures include both WMP and NFDM, since production and consumption figures for WMP and NFDM are not regularly separated or registered separately.

Nonfat and whole dry milk production for CY 2006 is forecast to increase to 175,000 MT as a result of the expected increase in fluid milk production. No new plants have been built in recent years. Consequently, any increase in production comes from existing infrastructure. Similarly, CY 2005 production is now expected higher than previously forecast. CY 2004 production reflects official data.

Imports of NFDM in CY 2006 are forecast to increase slightly over the previous year's estimate. Import levels appear to have jumped from previous levels of 120,000 mt to 140,000 mt observed during much of the NAFTA period, to around 170,000 mt. The increase stems primarily from Government or Mexico decisions to authorize over-quota import volumes at favorable tariffs to facilitate imports of milk powder for both the public and private sectors. In particular, Mexico's public sector milk distribution parastatal (LICONSA) continues to play a major role in the importation of milk powder. While LICONSA is trying to lessen its dependence on imported milk powder by procuring more domestically produced milk, many larger producers have direct relationships with milk processors, leaving LICONSA to focus its efforts on smaller producers. LICONSA coordinates with the Secretariat of Agriculture and the Secretariat of Social Development in setting its domestic purchase policies.

These efforts have met with some success in northern and central producing areas, but have not been as successful in the south. Depending on the region, poor infrastructure, quality issues or strong demand from processors and consumers have made it difficult for LICONSA to expand its domestic procurement. Imports for CY 2004 reflect official data. It's estimated that LICONSA distributes almost 3.3 million liters of subsidized milk per day at the current price of 3.50 pesos per liter (US$0.30). Ending stocks of milk powder are forecast to remain unchanged in CY 2006 at 25,000 MT as LICONSA tries to maintain a minimum tonnage in order to avoid rush purchases at the beginning of each year.

Statistical Tables

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Milk, Fluid** (1000 Metric Tons)					
	2004		2005		2006	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2004		01/2005		01/2006	
Cows In Milk	6800	6800	6850	6850		6875
Cows Milk Production	9900	9874	10020	10063		10285
Other Milk Production	140	155	140	155		157
TOTAL Production	10040	10029	10160	10218		10442
Intra EC Imports	0	0	0	0		0
Other Imports	55	70	50	70		70
TOTAL Imports	55	70	50	70		70
TOTAL SUPPLY	10095	10099	10210	10288		10512
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Fluid Use Dom. Consum.	4345	4349	4400	4468		4600
Factory Use Consum.	5750	5750	5810	5820		5912
Feed Use Dom. Consum.	0	0	0	0		0
TOTAL Dom. Consumption	10095	10099	10210	10288		10512
TOTAL DISTRIBUTION	10095	10099	10210	10288		10512

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Cheese				(1000 Metric Tons)	
	2004		2005		2006	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2004		01/2005		01/2006	
Beginning Stocks	0	0	0	0		0
Production	130	134	132	136		138
Intra EC Imports	0	0	0	0		0
Other Imports	80	82	85	85		86
TOTAL Imports	80	82	85	85		86
TOTAL SUPPLY	210	216	217	221		224
Intra EC Exports	0	0	0	0		0
Other Exports	0	2	0	2		2
TOTAL Exports	0	2	0	2		2
Human Dom. Consumption	210	214	217	219		222
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	210	214	217	219		222
TOTAL Use	210	214	217	219		222
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	210	216	217	221		224

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Butter**				(1000 Metric Tons)	
	2004		2005		2006	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2004		01/2005		01/2006	
Beginning Stocks	0	0	0	0		0
Production	80	88	80	89		92
Intra EC Imports	0	0	0	0		0
Other Imports	40	53	40	55		55
TOTAL Imports	40	53	40	55		55
TOTAL SUPPLY	120	141	120	144		147
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Domestic Consumption	120	141	120	144		147
TOTAL Use	120	141	120	144		147
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	120	141	120	144		147

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Milk, Nonfat Dry** (1000 Metric Tons)					
	2004		2005		2006	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2004		01/2005		01/2006	
Beginning Stocks	25	25	25	25		25
Production	160	170	160	172		175
Intra EC Imports	0	0	0	0		0
Other Imports	170	168	170	170		172
TOTAL Imports	170	168	170	170		172
TOTAL SUPPLY	355	363	355	367		372
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consumption	330	338	330	342		347
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	330	338	330	342		347
TOTAL Use	330	338	330	342		347
Ending Stocks	25	25	25	25		25
TOTAL DISTRIBUTION	355	363	355	367		372

NOTE: Mexico does not separate official statistics on production and consumption of powdered milk (NFDM and WMP). Post estimates for milk powder production NFDM and WMP are based on interviews with the trade and LICONSA. The above production, import and consumption figures include both WMP and NFDM. since production and consumption figures for WMP and NFDM are not regularly separated or registered separately.

PRODUCTION OF FLUID MILK BY STATE

(000 LITERS)

STATES	2004	2005*	% Change
AGUASCALIENTES	402,541	405,000	0.61
BAJA CALIFORNIA	208,752	218,358	4.60
BAJA CALIFORNIA SUR	42,982	43,448	1.08
CAMPECHE	33,270	32,000	(3.96)
COAHUILA	1,087,526	1,126,352	3.36
COLIMA	34,384	35,118	2.13
CHIAPAS	300,050	322,858	7.60
CHIHUAHUA	784,031	812,608	3.64
MEXICO CITY	13,039	12,983	(0.43)
DURANGO	958,776	948,120	(1.12)
GUANAJUATO	664,786	650,700	(2.16)
GUERRERO	78,036	85,166	9.13
HIDALGO	411,105	428,872	4.32
JALISCO	1,701,291	1,714,426	0.77
MEXICO	490,145	483,370	(1.40)
MICHOACAN	312,874	326,679	4.41
MORELOS	17,798	18,092	1.65
NAYARIT	67,438	65,399	(3.11)
NUEVO LEON	41,441	37,989	(9.08)
OAXACA	143,180	141,232	(1.37)
PUEBLA	364,452	372,542	2.21
QUERETARO	209,328	221,115	5.63
QUINTANA ROO	4,590	3,453	(32.92)
SAN LUIS POTOSI	144,523	154,080	6.61
SINALOA	77,243	84,695	9.64
SONORA	136,375	152,717	11.98
TABASCO	99,432	111,497	12.13
TAMAULIPAS	30,015	34,503	14.95
TLAXCALA	141,560	133,968	(5.66)
VERACRUZ	719,360	720,187	0.11
YUCATAN	7,749	7,082	(9.41)
ZACATECAS	145,684	158,035	8.47
TOTAL	9,873,755	10,062,645	1.91

SOURCE: Agriculture Secretariat (SAGARPA)

* SAGARPA's forecast for 2005

MEXICO'S MONTHLY FLUID MILK PRODUCTION
(000 LITERS)

MONTH	2004	2005	% Change
JANUARY	746,674	758,050	1.52
FEBRUARY	747,800	744,961	(0.38)
MARCH	765,109	765,850	0.10
APRIL	763,177	772464	1.22
MAY	800,716	791,239	(1.20)
JUNE	807,373	823,175	1.96
JULY	858,744	861,651	0.34
AUGUST	919,976	917,133	(0.31)
SEPTEMBER	932,720	N/A	N/A
OCTOBER	864,940	N/A	N/A
NOVEMBER	839,771	N/A	N/A
DECEMBER	826,755	N/A	N/A
TOTAL	9,873,755	N/A	N/A

SOURCE: Agriculture Secretariat (SAGARPA)

AVERAGE MILK PRICES PAID TO PRODUCERS IN MEXICO PER MONTH

(PESOS PER LT.)

MONTH	2004	2005	VAR. %
January	3.37	3.40	0.89
February	3.38	3.41	0.89
March	3.36	3.39	0.89
April	3.50	3.52	0.57
May	3.50	3.52	0.57
June	3.55	3.57	0.56
July	3.55	3.57	0.56
August	3.60	3.62	0.56
September	3.27	N/A	N/A
October	3.26	N/A	N/A
November	3.34	N/A	N/A
December	3.39	N/A	N/A

SOURCE: Agriculture Secretariat (SAGARPA)

Policy and Marketing Developments

Policy

Remaining NAFTA restrictions on imported milk powder are scheduled to be lifted on January 1, 2008. The following table outlines the current over-quota tariffs and tariff-rate quota volumes.

0402.10.01 Milk in powder or tablets 0402.21.01 Milk in powder or tablets		
Year	OVER QUOTA TARIFF	TRQ (MT)
2003	58.7%	52,191
2004	46.9%	53,757
2005	35.2%	55,370
2006	23.5%	57,031
2007	11.8%	58,742

In addition to the products covered in this report, Mexico has become a major importer of dairy blends, lactose and whey powder. When asked if the dairy sector, like some other sectors, will pressure the Government of Mexico to impose trade barriers as NAFTA protections diminish, key industry leaders have commented that non-TRQ imports and over-quota import authorizations are such that the Mexican dairy sector is already competing in a virtually open market. Consequently, pressure from the dairy sector to seek the implementation of dumping duties, safeguards, or technical barriers to trade is expected to be insignificant in the lead up to the elimination of NAFTA protections. Nevertheless, key industry segments are expected to monitor the effects of more open trade on producers and prices in coming years.

In response to a WTO authorized retaliation for the U.S. implementation of the Byrd Amendment, Mexico recently imposed a 30 percent tariff on dairy blends entered under tariff code 1901.90.05 on the first 29,400 mt imported into Mexico, with the tariffs reverting to the 2003 published levels (0 percent under NAFTA) after that amount has been imported, although it is uncertain that imports subject to the 30 percent tariff will reach the 29,400 mt level due to the increased cost. There appear to be limited substitutes for this product because of the milk powder content. Other similar products do not contain the required milk solids required by the industry in their processes. The only substitute would be non-fat dry milk or whole milk powder. Depending on prices for milk powder, it's possible that if the retaliatory measures continue with the application of 30 percent on dairy blend preparations, importers will turn to additional volumes of imported milk powder at the reduced high-tier tariff in 2006 and 2007 (See MX5074).

Due to the Mexican Government's continued ban on imports of live U.S. cattle following the detection of a single case of BSE in Washington State in 2003, Mexico has not imported dairy cattle from the United States since December 24, 2003. However, the Government of Mexico (GOM) recently established import requirements for dairy breeding bulls from the United States, see (MX5062). USDA and the Government of Mexico are working to finalize certification requirements.

Mexico's ban on imports of dairy cattle from the United States and Canada has caused importers to focus on alternate suppliers of dairy cattle such as Australia and New Zealand. Imports from Australia were 29,567 head in CY2004, but through June of 2005, imports had tailed off to 2,698 head. Dairy cattle imports from New Zealand have increased from 6,094 head in CY2004 to 22,708 head through June of CY 2005. This trend is expected to continue as long as BSE restrictions on U.S. and Canadian cattle are in place. A key concern for Mexico is how importation of U.S. or Canadian cattle will affect their BSE status relative to other countries. Mexico continues to import U.S. and Canadian semen and embryos since these products are not affected by the ban.

Marketing

The cooperator group that represents the US dairy industry in foreign markets is the US Dairy Export Council (USDEC). The council's staff in Mexico City provides information on all aspects of US dairy product trade and use, including market intelligence on trade policy issues, organizing informational seminars for the Mexican trade, and developing promotion and sales opportunities for US dairy products in the Mexican market. USDEC also organizes buying missions for potential Mexican importers/distributors to visit US dairy processing plants so they can meet and see, firsthand, various US suppliers and the services they offer. Mexico is expected to continue as a significant importer of dairy products to augment domestic production. While imports are likely to consist primarily of bulk products such as NFDM, higher value products such as specialty cheeses and ice creams are also likely to find a home in Mexico's growing consumer class as tastes, preferences, and shopping habits increasingly mirror those of the United States and Europe.

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Related FAS/Mexico Reports

Report Number	Title of Report	Date
MX5012	Mexico Announces TRQ for Milk Powder Imports from WTO Member Countries	02/01/05
MX5032	Mexico Amends the Allocation of the 2005 Tariff-Rate Quota for Milk Powder	04/11/05
MX5040	Mexico Announces Worldwide Tariff-Rate Quota for Egmont Cheese	05/06/05
MX5044	Dairy Semi-Annual Report	05/16/05
MX5070	Mexico Establishes 2005 Additional Volume on Out-of-Quota Milk Powder Imports	08/17/05
MX5074	Mexico Announces Retaliatory Tariffs in Response to Byrd Amendment	08/22/05
MX5075	Mexican Customs Establishes Grace Period for Correcting Errors in Import and Export Documentation	08/29/05
MX5077	Livestock Annual	09/01/05
MX5081	Mexico Establishes 2005 Additional Out-of-Quota Milk Powder Imports	09/12/05
MX5082	Mexico Announces the TRQ for Feeder Cattle Imports from Countries with Animal Health Agreements Celebrated with Mexico	09/19/05